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UNCLAS SECTION 01 OF 02 AMMAN 006504

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SUBJECT: JORDAN: FY04 USDA FOOD ASSISTANCE RECOMMENDATION

REF: STATE 181481

1. (U) Summary. Post recommends that \$20 million in FY04 P.L. 480 Title I funds be set aside for a concessional loan that will help the government of Jordan procure U.S. wheat, with proceeds from the local sale of the wheat being used to fund agricultural productivity and rural development programs, including to help farmers use scarce water resources more efficiently. This level of assistance would not displace commercial sales or local production and is consistent with a pattern of declining U.S. food aid levels as Jordan's economy becomes increasingly able to meet its food import needs commercially. End Summary.

2. (U) In recognition of critical U.S. foreign policy interests in Jordan and the major economic growth and development obstacles faced by this resource and water-poor country, Jordan has historically been a major beneficiary of U.S. food aid. Food aid has helped Jordan meet the nutritional requirements of its relatively poor and growing population (per capita income was \$1750 in 2002), including during the recent (1999-2001) period of serious drought. In addition, joint programming of the local currency generated by government sales of food aid provided under the 416(b) and P.L. 480 Title I programs has advanced agricultural reforms and productivity and promoted development in rural areas.

3. (U) Until 1998, assistance was provided through P.L. 480 Title I loans that Jordan used to procure U.S. grain. During the drought period between FY99 and FY02, food aid was provided in the form of wheat grants under the 416(b) program, with the United States donating 200,000 mt tons of wheat in FY02. In FY03, food aid was again provided through a \$20 million Title I concessional loan that Jordan used to procure approximately 135,000 mt of U.S. wheat. (With annual consumption of approximately 650,000 mt, wheat is the staple of the Jordanian diet.)

4. (U) Along with Jordan's recovery from the recent drought, economic growth patterns have strengthened since 2001, as the impact of extensive macroeconomic and regulatory and trade reforms implemented since the early 1990s began to kick-in. Until the conflict in neighboring Iraq interrupted traditional trade and energy ties earlier this year, real GDP had been growing at a 5% annual pace. Analysts expect growth rates to return to and likely exceed that pace once the economy adjusts to the disruption caused by the war in Iraq. Nevertheless, Jordan will continue to suffer from high rates of poverty and highly unequal income distribution for years to come. Rural and agricultural areas remain by far the poorest and least developed parts of the country.

5. (U) Thus, despite economic progress, Jordan will continue to require U.S. economic assistance for the foreseeable future. The year 2004 will be an especially challenging one for Jordan as the economy adjusts to the loss of oil and trade subsidies formerly provided by Iraq, with the government budget bearing the largest part of the adjustment burden. Food aid will remain an important part of the assistance mix. Local currency generated by government sales of food aid would continue to help agricultural and rural populations adjust to rapid economic change and in encouraging continuing agricultural reforms. In addition, food aid has helped develop a lasting market for U.S. wheat and has not been found to displace commercial sales.

6. (U) RECOMMENDATION: Given these foreign and economic policy considerations, post recommends that the level of food assistance be maintained in FY04 at the same level as in FY03, i.e. that \$20 million in P.L. 480 Title I funds be set aside for Jordan for wheat purchases under the government to government program. As in FY03 and earlier years, local currency proceeds would be used to help finance GOJ programs that promote agricultural productivity through market-oriented reforms and more efficient agricultural use of scarce water resources.

7. (U) This recommendation is consistent with a pattern of declining food assistance levels as Jordan's economy

becomes increasingly self-reliant, but is also realistic in recognizing that Jordan will continue to require foreign assistance to meet its development and nutritional challenges. In FY04, the challenge of adjusting to the economic impact of the Iraq conflict will be particularly acute. In FY05 and beyond, we may want to continue pursuing gradual reductions of food aid levels, with a goal of eventually moving Jordan toward fully market-based procurement of its food needs.

GNEHM